

Millennials and the Sharing Economy

Thematic Investing

The millennial generation are set to see income growth that outstrips other generations in the near to medium term. In this regard, companies catering to their unique preferences such as those within the Sharing Economy are well positioned to take advantage and experience above average earnings.

Introduction

Over the past decade, millennials have received a substantial amount of attention as they have transitioned into adulthood.

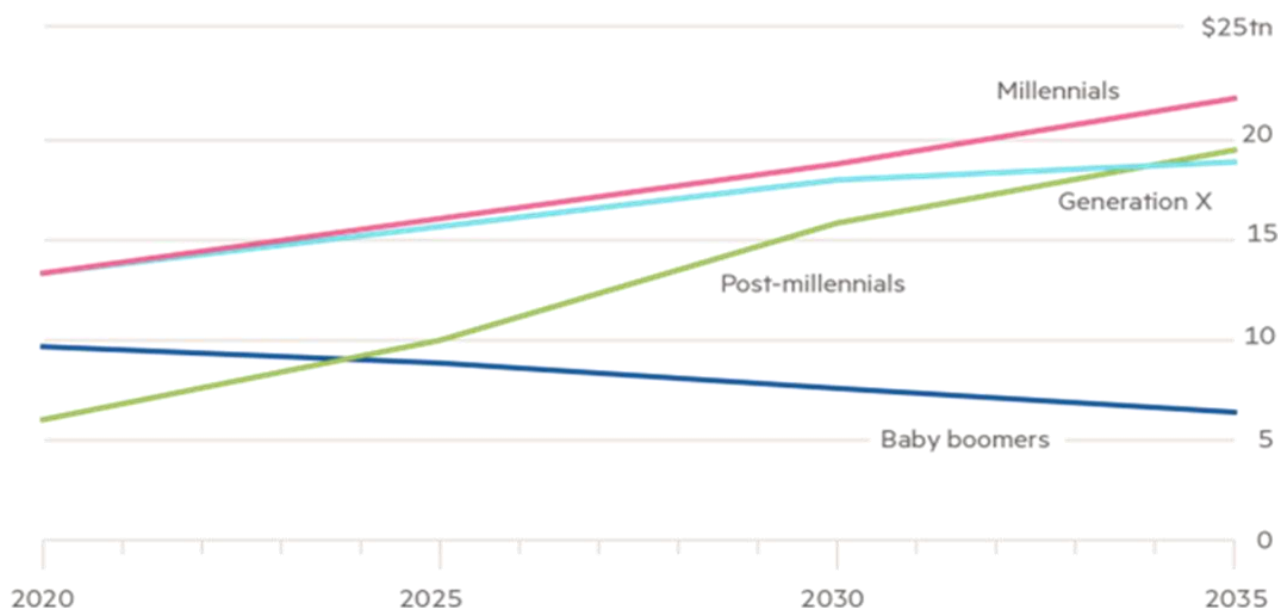
The unique tastes and preferences of millennials have been cited as reasons why new-car sales were lacklustre during the early years of the recovery from the 2007–09 recession, and why many brick-and-mortar retail chains have run into financial trouble.

Their preference for more experiences and an asset-light lifestyle fit well with companies operating within the sharing economy system – that is a system characterized by the sharing of assets and services by participants, often via community-based online platforms.

Millennials are a force to be reckoned with

The millennial generation can be defined as those born between 1981 and 1996. In 2016, millennials overtook Generation X as the largest group in the US labour force. In terms of aggregate income and spending power, it is unsurprising that at the global level, millennials will be the reigning economic powerhouse over the medium-term (Hofer and Fenz 2020).

Hence, companies that can win millennials' business stand to enjoy robust economic growth for years to come. However, winning over the millennial generation would require understanding their preferences.



Source: The Brookings Institution

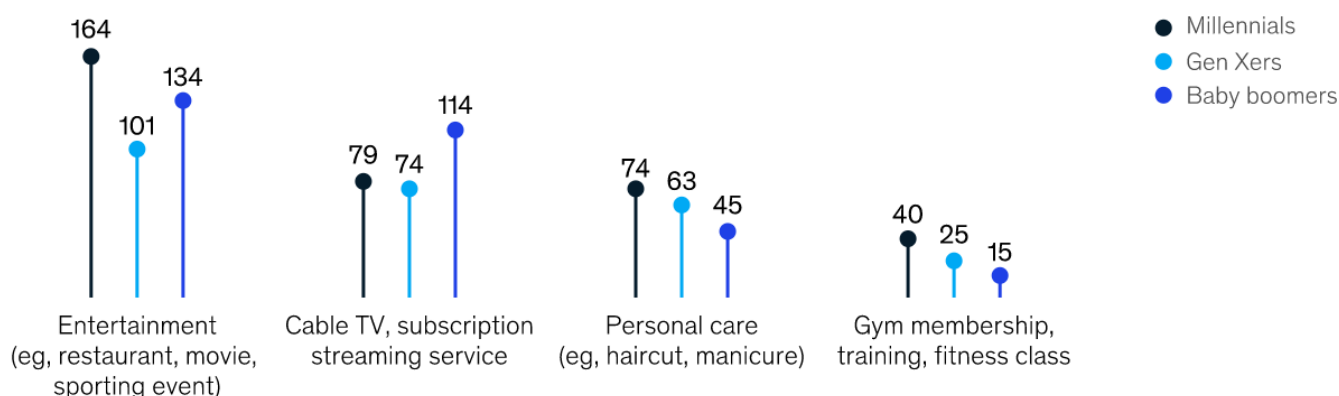
Figure 1: Forecasted annual income aggregate by generation (USD trn)

Understanding millennial behaviours and preferences

A survey by McKinsey found that millennials are willing to pay premium prices for both goods and experiences. Just over half of millennials that were surveyed indicated that they do not mind paying more for quality products that will last for years (Finneman and Schmidt 2020).

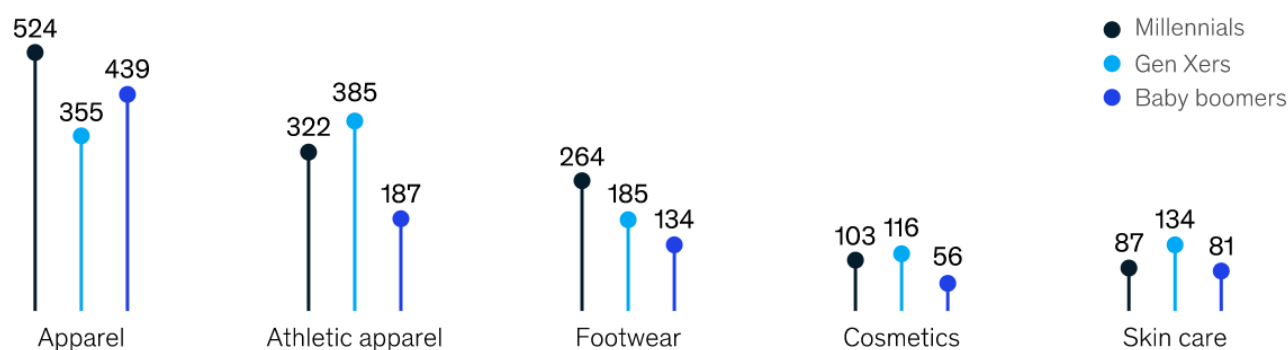
This willingness to pay for quality extends across multiple product categories, such as restaurants, tech devices, apparel and footwear.

In 2015, millennials reported spending USD164 per month on average on entertainment, such as restaurant visits, movies and sporting events, versus USD101 for Gen Xers and USD134 for baby boomers. On apparel, millennials spend \$524 per year versus \$355 for Gen Xers and \$439 for baby boomers. For footwear, those numbers are \$264, \$185, and \$134, respectively.



Source: McKinsey

Figure 2: Mean reported monthly spending on experiences in 2015, by generation (USD)



Source: McKinsey

Figure 3: Mean reported monthly spending on goods in 2015, by generation (USD)

Whilst millennials are willing to spend on experiences and 'lifestyle' consumer goods such as apparel, footwear and tech devices, they are less willing to spend on big ticket items like cars and houses.(Figure 4).

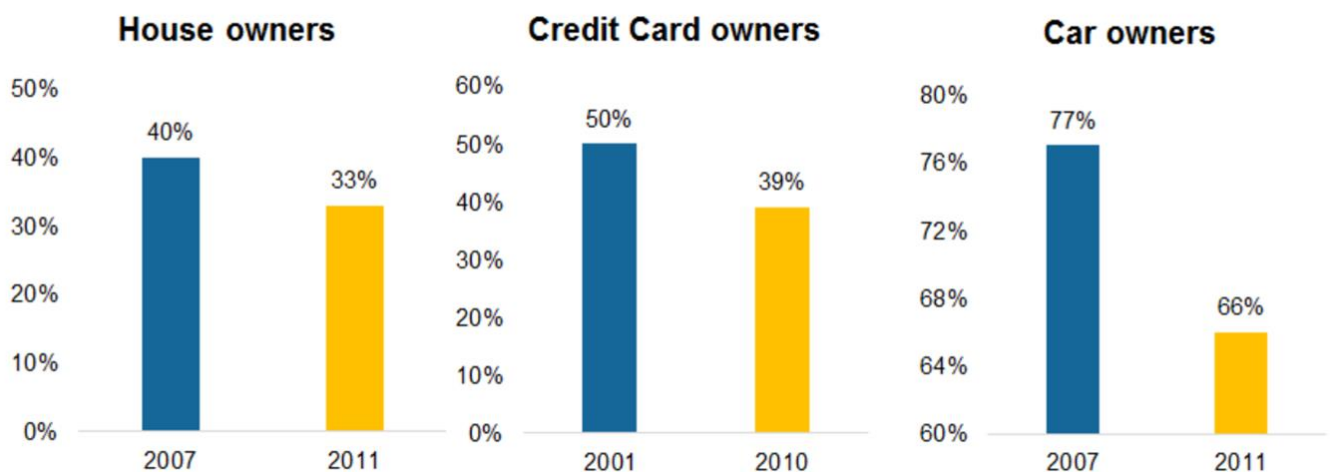
For these items, millennials take a more asset-light stance toward consumption, putting off buying a home in favour of renting, forgoing a car loan payment and taking a ride sharing service, or skipping a hotel in favour of booking a room via AirBnB. This asset-light approach fits their budgets as millennials have taken longer than expected to enter the job market and have student debt to service (Fry 2013).

Millennials preferences align with the “Sharing Economy”

Hence, the millennial generation is also the more likely generation to embrace the sharing economy concept. The sharing economy can be thought of as an economic system that is based on people sharing otherwise idle assets and services, either for free or for payment, using the internet to organise this.

The concept encapsulates two key features:

1. Short-term peer-to-peer transactions to share the use of otherwise idle assets and services; and
2. A type of online platform to facilitate interactions and transactions between buyers and sellers



Source: Pew Research

Figure 4: US millennial ownership of houses, credit cards and cars, 2007 vs 2011

In essence, technology matches buyers/demand and sellers/supply to reduce market inefficiencies. The sharing economy was born out of a combination of:

- Big data;
- Powerful platforms that run algorithms;

The combination of big data and sophisticated platforms that run algorithms enable idle assets and services to be matched with demand. On top of this, the global take-up of smartphones, fast mobile internet, increased trust in online payments and review/rating systems have helped the sharing economy boom.

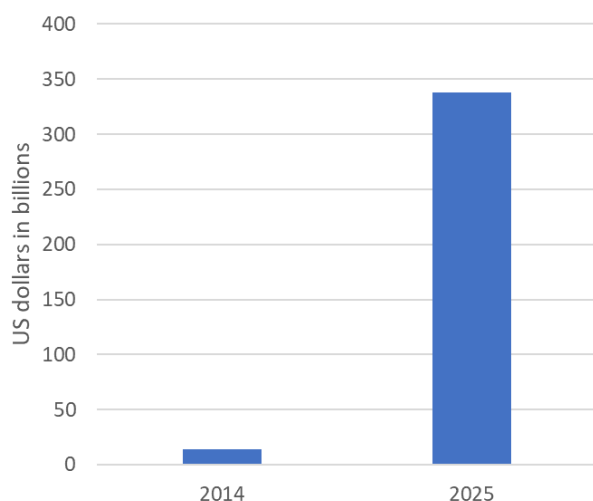
The sharing economy model has brought about a shift in the idea of owning the means of capital/production. That model dominated economic thinking from the industrial revolution through the 20th century, but is now often viewed as old-fashioned, slow and inflexible.

In contrast, Sharing Economy leaders are asset-light, with Uber not owning any cars, Airbnb not owning any hotels, Amazon having only a handful of brick-and-mortar stores, and eBay not managing a supply chain.

Sharing Economy – great market potential that is set to grow

Estimates by BofA show current potential sharing economy market to be worth USD 2 trillion globally; but the current actual market addressed is only USD 250 billion. The addressable market in the US is US\$785bn, US\$645bn (€572bn) in Europe and US\$500bn in China (Durdan 2017).

Meanwhile, PwC forecasts that the sharing economy market opportunity could grow to US\$335bn by 2025E with transport, home sharing, staffing, streaming and staffing expected to be the fastest-growing verticals, with 2013-25E CAGRs of 17-63% (Durdan 2017).



Source: PWC

Figure 5: Estimated market value of the sharing economy 2014 - 2025

Potential winners from the Millennials and Sharing Economy trend

Amazon

Amazon is one of the leaders within the Sharing Economy space. In addition to being one of the largest online retailers in the world, Amazon also matches buyers and sellers of goods through programs like its Fulfillment By Amazon (FBA) program.

Using big data and advanced algorithms, Amazon recommends products for consumers to buy and for sellers to supply. These products which Amazon may or may not warehouse, and may or may not ship to you the consumer, are actually more profitable for Amazon than products it maintains in inventory and ships itself.

Booking Holdings

Another leader is Booking Holdings with their website booking.com. While AirBnB may be more popular for listing short-term rentals, Booking Holdings also offers a service for travellers to rent idle properties.

As of 2019, Booking.com had more than five million homes, apartments, and other "unique places to stay" listed on its site, more than Airbnb's four million properties.

Netflix

Netflix is another notable company catering to millennial tastes. The company offers subscribers access to its library of original and third-party content for a monthly fee. This model when combined with its advanced algorithm for recommendations, has allowed the service to maintain its members and grow to become the world's largest streaming service. The company in 2019 reported EPS of USD4.13 from USD2.68 in 2018. This is set to grow further by 51% in 2020.

Investing in the "Millennials and Sharing Economy" trend with Crea8

With millennials set to become the highest earning generation in the years to come, companies that are catering to their needs and wants are likely to outperform in terms of earnings. Further, the popularity and growth of the sharing economy model will mean companies operating such business models will also see higher than average earnings growth. Hence, portfolios invested in these companies are likely to benefit from long term outperformance vs market.

Crea8 has put together an investment strategy to ensure you don't miss out on investing in this trend. The 'Global Millennials and Sharing Economy' investment strategy lets you ride on this trend by investing in the stocks of platforms, services, and companies that are catering to millennials and in the sharing economy sector.

Through Crea8's Factor Based Thematic Investing Service, you get the opportunity to invest in this trend.

Put your own spin on things

Crea8 allows you to adopt our professionally built strategies, such as "Millennials and Sharing Economy", and put your own spin on things.

If you are concerned about sustainability, Crea8 has also incorporated Environmental Social and Governance (ESG) factors into our portfolio construction, thereby, ensuring that your portfolio is consistent with your ESG principles.

Alternatively, with Crea8's Analytics, you can use our screener to identify other stocks to add to the strategies, while Crea8's Advisory allows you to use our algorithm add factor tilts to these strategies.

We monitor your plan to ensure you can sleep easy

When you set up an investment plan or strategy with us, your investment plan or strategy is rebalanced automatically, or we will send you a reminder to do so. This way, you can relax knowing that your investment plan is diversified and on track to meet your goals.

Crea8 offers free and automatic portfolio monitoring

In between the rebalancing date, we suggest that you enter cut loss and take profit orders. By using smart algorithms, we aim to cut your losses and let your profits run. Hence, you can sleep well knowing that your portfolio is monitored and up-to-date.

Backtest your strategies with 'what ifs' before investing

For any of the investment plans or strategies that you create, we let you backtest them and evaluate 'what-ifs' before committing your capital.

Crea8's Suite of Thematic Strategies

FinTech and Digital Security

Ageing Society

Electric Vehicles and Driving Technology

Smart Cities and Smart Homes

Millennials and Sharing Economy

AI and Blockchain

Smart Factory

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